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Chairman James H. Quello
Federal Communications Commission
1919 M Street, N.W.
Room 802
Washington, D.C. 20554

Re: The Disney Channel/MM Docket 92-266Dear *Jim* Chairman Quello:

At your suggestion, I am setting forth the substance of our conversation concerning The Disney Channel and cable rate regulation.¹

In a nutshell, here is the situation: Before the Commission's rate regulation decision, more than 300 cable systems had begun to offer The Disney Channel on a program service tier rather than on a per channel basis. Additional systems had indicated a willingness to add The Disney Channel to a tier. Including The Disney Channel on a tier allows children and families to receive Disney's highly acclaimed programming at a substantially lower price than they would pay on a per channel basis. (Disney research indicates that when Disney is purchased as part of a tier, subscribers' total cable bills average \$19.50 per month, compared to \$29.00 per month when Disney is purchased on a per channel basis. Research also reveals that in markets in which Disney is offered on a program tier, The Disney Channel has quickly become one of the most watched cable services.)

Even when carried on a tier, The Disney Channel remains commercial-free. As a result, the license fee Disney must charge cable operators is higher than the

¹ The Disney Channel's position is set forth in detail in our Petition for Clarification and Reconsideration, MM Docket 92-266, filed June 21, 1993.

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typical license fee charged by advertiser-supported services.

Here's the problem: In adopting the benchmark system, the Commission did not focus on the fact that in limited instances a commercial-free, premium service like The Disney Channel might become part of a regulated tier. Cable operators will not add Disney to a tier if they cannot recoup the license fee and a reasonable rate of return. But, because The Disney Channel is commercial-free, its license fee will almost always be higher than the per channel benchmark. Thus, cable operators who were planning to add The Disney Channel to a tier have put those plans on hold. And some who currently carry it on a tier are considering removing it.

Such a result would hurt The Disney Channel. More importantly, such a result would disserve viewers, who either will have to pay more for their cable service overall (just when they thought their rates would be decreasing) or, alternatively, will be not be able to afford to subscribe to The Disney Channel.

When John Cooke and I met with you, you agreed that this was an unintended result. In our conversation Friday, you affirmed your willingness to avoid this result -- for which I, on behalf of The Disney Channel, am most grateful.

Here is what we seek: In your Phase I rate reconsideration order, permit cable operators to pass through the cost of commercial-free, premium services to the extent the cost exceeds their systems' marginal per channel benchmark, at the time such a service is added to a program tier. (Obviously, if you decide to permit operators to pass through these costs for all newly added program services, this would also solve our problem.) Program cost should include both the license fee and a reasonable profit.

We are also asking you to permit operators to pass through the cost of commercial-free, premium channels already carried on cable systems, but we understand that this will not be considered in this first phase of reconsideration.

As we have made the rounds at the Commission and on the Hill, we have met no resistance to solving this problem. I very much appreciate your willingness to make sure that this sympathy is turned into action, so that the problem is

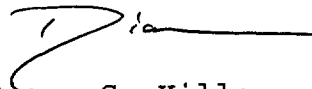
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solved in a way that gives cable systems an economic justification to add services like The Disney Channel to program tiers -- and, in so doing, to make the programming available to more families and children at a lower cost.

Please let me know if there is anything I can do further. John Cooke, president of The Disney Channel, also stands ready and willing to provide you with any additional information you would like.

Best personal regards,



Diane S. Killory

cc: Commissioner Ervin S. Duggan
Commissioner Andrew C. Barrett
William H. Johnson, Deputy Bureau Chief
William F. Caton, Acting Secretary